

22 June 2015

To: CEOs of general insurers, Level 2 insurance groups and life companies (including friendly societies)

Public disclosure for prudential purposes for insurers

APRA's capital adequacy framework for general insurers, Level 2 insurance groups and life companies (including friendly societies) (collectively 'insurers' in this letter) is based on a three pillar approach. The three pillar approach is well-established in the regulatory world and is used in the International Association of Insurance Supervisors (IAIS) standards¹, Basel Committee on Banking Supervision's capital framework² and in Solvency II in Europe³. For the purposes of this letter all references to the three pillars refer to the insurance framework only.

The three pillar approach, which is discussed in APRA's *Prudential Practice Guide CPG 110 Internal Capital Adequacy Assessment Process and Supervisory Review*, is risk-sensitive and designed to promote stability in the financial system.

The three pillars, intended to be mutually reinforcing, are:

- Pillar 1 - the quantitative requirements in relation to required capital, eligible capital and liability valuations;
- Pillar 2 - the supervisory review process, which includes supervision by APRA of the risk management and capital management practices of regulated entities and may include a supervisory adjustment to capital; and
- Pillar 3 - disclosure requirements⁴ designed to encourage market discipline.

Public disclosures can give rise to better informed market participants (including investors, analysts, policyholders, other insurers and rating agencies). This provides for a more informed assessment of the soundness of each insurer, including assessment of each insurer's capital adequacy with respect to its risks, governance and risk management practices.

¹ Refer to pages 5-9 of [The IAIS Common Structure For The Assessment Of Insurer Solvency](#)

² Refer for example to [International Convergence of Capital Measurement and Capital Standards](#)

³ Refer to page 5-10 of [Cover note for the draft consultation papers on the Guidelines and Implementing Technical Standards \(ITS\) for Solvency II](#). Also refer to the [European Union Solvency II directive 2009/138/EC](#) and [Solvency II: Frequently Asked Questions](#)

⁴ Disclosure in this context is in relation to prudential matters and is generally about the entity itself. This is distinct from other types of disclosure with which insurers will be familiar, in particular those made to individual customers about products or services.

The key benefits of public disclosure for prudential purposes include:

- reducing information asymmetries between insurers and other market participants, thus giving market participants greater ability to make informed assessments of the relative strength of insurers;
- creating strong incentives for insurers to conduct their business in a safe, sound, prudent and efficient manner; and
- enhancing market information available to the board and senior management, including, for example, peer remuneration practices.

This in turn can lead to increased confidence in the soundness of insurers, and the promotion of stability in the insurance industry and financial system.

Public disclosure for prudential purposes usually takes one of two broad forms:

- (a) publication by APRA of insurer-level information; or
- (b) information published by the insurer, e.g. in its annual report or on its website. This may be done voluntarily or in response to requirements under the *Corporations Act 2001* or imposed by third parties such as the Australian Securities Exchange (ASX) or APRA.

Publication by APRA

APRA produces a series of regular publications for the life insurance and general insurance industries⁵. The information contained in these publications is largely quantitative in nature and is based on the regular statistical returns provided by each insurer to APRA.

However, APRA collects much more data than it publishes. In February 2013, APRA proposed determining all of the data collected from insurers under the *Financial Sector (Collection of Data) Act 2001* (FSCODA) to be non-confidential. In December 2013, a determination was made that certain institution-level data (that is, a subset of the data considered in the February 2013 proposal) is non-confidential. APRA has now considered whether further data may be made non-confidential, taking into consideration the views expressed in insurers' submissions, and our assessment of the public value of making the data non-confidential. APRA will communicate separately with insurers regarding this matter shortly.

Public reporting by insurers

Currently, APRA's public disclosure requirements for insurers extend to an insurer's capital base, prescribed capital amount and their respective components⁶. The International Monetary Fund's (IMF's) 2012 Financial Sector Assessment Program (FSAP)⁷ assessed that

⁵ These include Quarterly Performance Statistics, Institution-level statistics, Intermediated General Insurance Statistics, and the National Claims and Policies Database.

⁶ See paragraphs 45-48 of [Prudential Standard LPS 110 Capital Adequacy](#), and paragraphs 40-43 of [Prudential Standard GPS 110 Capital Adequacy](#).

⁷ See page 114 in the [IMF 2012 FSAP](#)

public disclosure requirements in Australia had not kept pace with developments in the IAIS Insurance Core Principles (ICPs)⁸ and recommended enhancements.

APRA observes that, within Australia, there is a wide range of public disclosure practices, with a number of insurers lagging behind industry better practice.

Qualitative disclosures that complement capital and other financial disclosures significantly enhance market discipline. In particular, enhanced disclosure relating to corporate governance, remuneration practices and risk management would provide meaningful information to market participants.

APRA would prefer that the insurance industry and individual insurers take the lead on improving public disclosures. On this basis, APRA is not proposing to impose any additional Pillar 3 requirements on insurers at this time. Instead, this letter draws attention to industry better practice and suggests practical and effective steps that each insurer can take to enhance the quality of its public disclosures for prudential purposes.

Attachment A to this letter outlines practical approaches that may assist insurers in making improved public disclosures for prudential purposes.

Next steps

APRA strongly encourages each insurer to review its approach to public disclosure of prudential matters in light of this letter, with the aim of enhancing market discipline.

APRA is not requesting a formal response to this letter, but welcomes views you have on any aspects of this letter. Comments can be made via email to Insurance.Policy@apra.gov.au. If you have any questions in relation to your specific circumstances, please contact your Responsible Supervisor.

We ask that you discuss this letter with your board.

Yours sincerely

A handwritten signature in black ink, appearing to be 'K. G. ...', is written over a light blue horizontal line.

⁸ See *ICP 20 Public disclosure* from the IAIS document: [Insurance Core Principles Standards Guidance and Assessment Methodology October 2011 revised October 2013](#)

Attachment A - Practical approaches for public disclosure for prudential purposes

In principle, when assessing what information to disclose publicly, insurers may find it useful to ask themselves: would the information be useful to a market participant in making assessments and/or decisions about the insurer?

It is likely that prudential disclosures will differ for each insurer for reasons including the insurer's size, business mix and complexity.

Insurers may choose not to duplicate disclosures they have already made, or information disclosed by APRA or by any other party. Cross-references to other publicly available sources of information can be appropriate.

In line with observations made within the IMF's 2012 FSAP and by APRA, insurers may find the following approaches to making public disclosures for prudential purposes helpful in enhancing market discipline.

1. Consider using your existing reporting. For example, consider making your financial, directors' and auditors' reports freely available.

- The Australian Securities and Investments Commission (ASIC) regulates disclosure requirements under the *Corporations Act 2001* requiring insurers, depending on the size and type of entity, to disclose a financial report, director's report and an auditor's report. Making these reports freely available, either on an insurer's website or in some other way, would assist in enhancing public disclosures across governance, remuneration practices, risk management and financial matters. The director's report in particular may assist in making disclosures on the company profile including key summary information about the business, strategy, objectives and products.
- Insurers currently provide APRA with a range of information through 'Direct to APRA' (D2A) reporting, which is mostly financial including capital-related information. APRA publishes selected statistics for individual insurers, as well as aggregate industry statistics, in its statistical publications. Insurers also provide APRA with a number of important documents including the Internal Capital Adequacy Assessment Process (ICAAP) summary statement, ICAAP report, Financial Condition Report and Risk Management Strategy, required under the prudential standards. These reports provide valuable insights into the linkages between an insurer's business, risk, capital and reinsurance management strategies. Insurers also typically have internal management reporting or other information. Compiling summaries of the key elements of this existing information, with appropriate adjustments for commercially sensitive information, can provide a large component of the information contemplated by APRA in this letter.

2. Consider providing qualitative disclosures that support and make financial disclosures more meaningful.

- An explanation of the financial disclosures and financial results in the context of the business plan, including disclosure of the methods and assumptions used in preparing the reported figures, may assist in making the disclosures clear and meaningful. Providing context to the required Pillar 3 capital adequacy disclosures, such as comparisons of regulatory minimums with actual and target capital levels, capital fungibility for Level 2 insurance groups, as well as other qualitative disclosures such as

a compilation of APRA-required board and other attestations, and discussion of any material events or changes in the business, may enhance market discipline.

- A formal policy for public disclosure for prudential purposes covering the content and frequency of disclosures, how disclosures are made, the processes for validation and the controls in place over the disclosure process, may assist in making consistent and accurate disclosures over time.

3. Consider enhancing financial disclosures through further segmented financial position and performance data and through comprehensively assessing the extent to which other information could be made available without releasing commercially sensitive information.

- In order to enhance usefulness and transparency, consider providing key performance statistics and analysis of the sources of profit and loss at an appropriately disaggregated business segment level, in addition to overall aggregate results. Insurers may choose not to make disclosures for every class of business; however, better practice would be to at least disclose results across property, casualty, and lenders' mortgage insurance classes of business, for direct and reinsurance business separately. Reinsurers may also consider disclosing these results by proportional and non-proportional business. For life companies, an analysis of sources of profit by product group separately for each statutory fund, as well as for the total company, may be appropriate. Life companies may also consider disclosing amounts attributable to policyholders and shareholders on a fund by fund basis where appropriate.

4. Consider improving corporate governance, remuneration and risk management disclosures.

- Guidance regarding corporate governance disclosures for listed insurers is provided by the ASX, however, unlisted insurers may also find it useful to consider these principles. The ASX sets out corporate governance principles and disclosure requirements and also provides a useful abridged guide⁹ on continuous disclosure, including a decision map. These include disclosures on the role, size and composition of the board, board renewal policy, performance assessment and remuneration practices.
- Corporate governance disclosures may also be enhanced through clear information about individual board members¹⁰ and senior staff. This includes disclosing information about their experience, qualifications and remuneration practices¹¹, identifying the insurer's Appointed Auditor and Appointed Actuary, disclosing controls for managing conflicts of interest, organisational structure, key board and management committees,

⁹ [Continuous disclosure: an abridged guide](#)

¹⁰ The board of an insurance company has certain responsibilities with respect to the interests of policyholders under the law and APRA prudential standards. Directors of life insurance companies have quite particular responsibilities under section 48 of the *Life Insurance Act 1995*. It is reasonable, therefore, that policyholders have information about those who are charged with such responsibilities.

¹¹ The requirements imposed on listed companies by the Corporations Act may be useful input in this regard.

business continuity management processes, and the outsourcing policy, where relevant.

- Risk management disclosures may be enhanced by disclosing how the insurer's risk appetite and tolerances are incorporated into business decision making in practice, qualitative information on current and emerging risks, a description of the insurer's approach to asset-liability management and other key risk management processes and controls (including the approach to reinsurance management), identification of key risk concentrations, approach to capital management, and key features of capital instruments.
- Insurers may find it useful to consider APRA's disclosure requirements for authorised deposit-taking institutions in *Prudential Standard APS 330 Public Disclosure* to the extent these are relevant to insurance business.

5. Consider the appropriate medium(s) for making public disclosures for prudential purposes, with appropriate thought to whether the chosen method ensures the information is readily and freely available.

- In order to make timely disclosures, consider making public disclosures for prudential purposes ideally within three months of an insurer's balance date and as soon as practicable following a significant change in the financial position, performance, risk or governance of the insurer.
- Disclosures of financial and capital information for prudential purposes would ordinarily use the appropriate accounting standards to the extent that they are not inconsistent with APRA's prudential and reporting frameworks. This enhances comparability across insurers.
- A number of insurers dedicate a section of their website to information for shareholders and/or investors. Insurers may consider developing a specific section on their website in order to make their disclosures contemplated by this letter readily and freely available.
- In the case of Level 2 general insurance groups, consider making a consistent group-wide set of disclosures. Individual Level 1 general insurer disclosures as well as group disclosures are likely to be appropriate so that sufficient information is available both on a Level 1 and Level 2 basis.

6. Consider what information is appropriate to release in the public domain.

The following items are examples of information that are not appropriate to include in the public domain:

- items in prudential standards where it is specifically required that the item must not be disclosed e.g. any supervisory adjustment (Pillar 2 adjustment) determined by APRA; and
- PAIRS or SOARS ratings advised by APRA, or other information or reports provided to insurers by APRA.